



Financing High-Impact Startups

Creating Jobs and Wealth in Montana

Report to the Montana State Workforce

Investment Board

May 31, 2012

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**An Initiative Made Possible by the
Montana State Workforce Investment Board (SWIB)
and**

The Montana Governor's Office of Economic Development (GOED)



Seminars and Partners

Kalispell, Lewistown via IPTV

Montana West

Missoula

U of M Tech Transfer, MCDC, MEP

Bozeman

*TechLink, Prospera, MSU Tech
Transfer*

Billings, Miles City via IPTV

*Big Sky EDA, MSU Billings College of
Business, MTIP*

Entrepreneurs

- Over the last 18 months, have had contact with more than 400 entrepreneurs about some aspect of their business
- More than 120 have taken the SWIB seminar
- Evaluations show a very high degree of interest and a high degree of satisfaction with the content, delivery and networking opportunity with average ratings between 4 and 5 with 5 being highest

Watch for:

- Fresh Finds – Opening in Missoula, MT
- Social Data – Bozeman, MT
- Vista Dental – Creston, MT
- Synergy Station – Billings, MT
- CrossTX – Bozeman, MT
- SJE Pharma – Kalispell, MT



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Agenda

- Introduction
- Capital sources for entrepreneurs
- Exercise capital sources
- Networking break
- Business plans for startup entrepreneurs
- Fundable companies
- Other important stuff
 - Term sheets
 - Valuation
- Exercise on fundable companies



Classic Companies

Life Style Businesses

- Single store retail is typical
- Most service businesses are lifestyle
- Personal income is objective not building equity (Value of business)
- Job creation become steady state

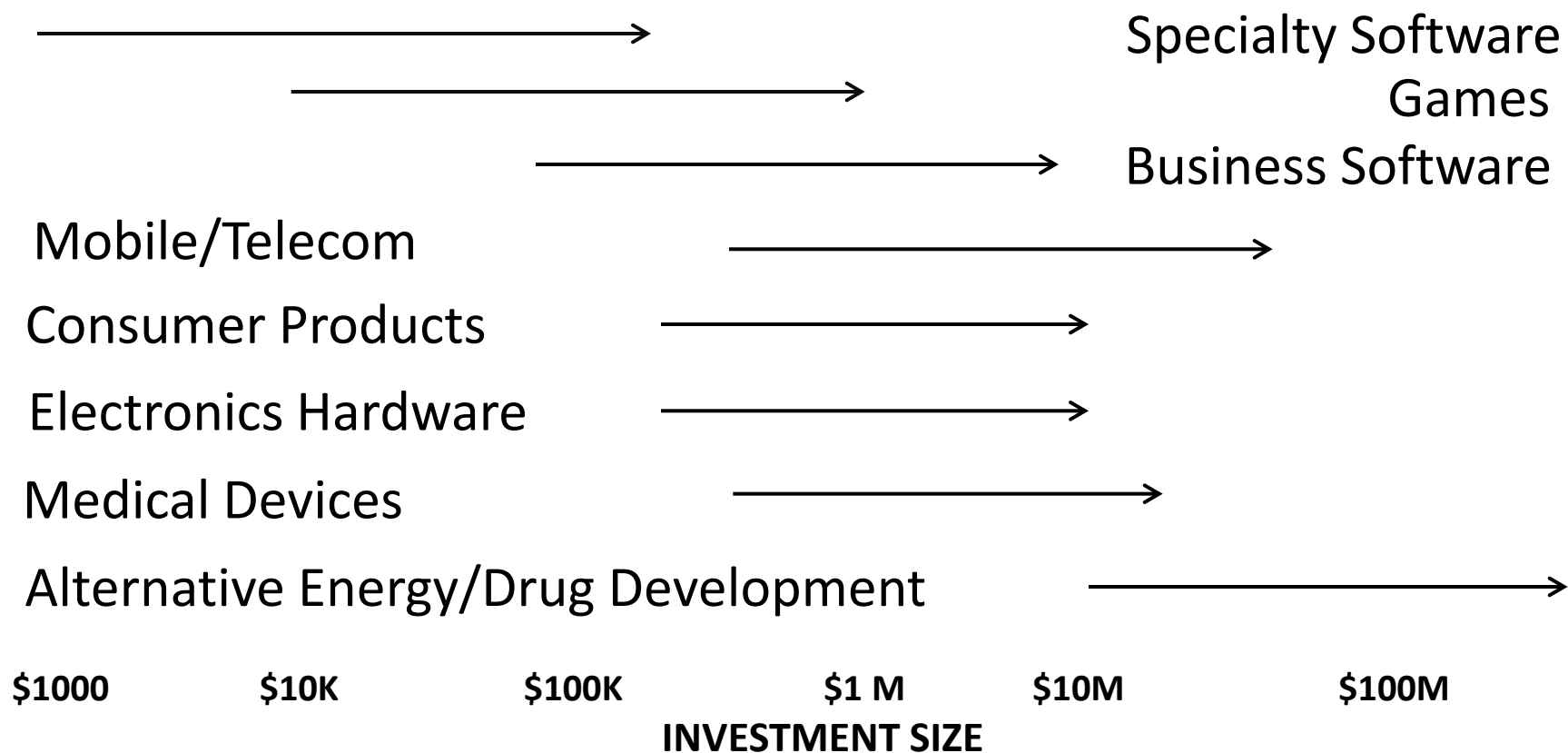
High Impact Businesses

- Product companies (seldom service companies)
- Growth is key (jobs and revenue)
- Building Equity
- High personal income is not the goal



Startup Costs

High-Impact (Scalable) Businesses





Lenders versus Investors

Lenders

- Inexpensive source of capital, but
- Require two forms of repayment
 - Collateral – assets of sufficient value
 - Income streams to make payments
 - Most entrepreneurs have neither
- Private (friendly) sources can be useful
 - Less collateral
 - Interest free/postponed payments



Semitoool (Kalispell)

Founded:	1978
Business:	Equipment used in the fabrication of semiconductors.
Funds raised:	Debt only
Exit year:	Public in 1994, Sold 2010 to Applied Materials
Exit price:	\$364 million/ \$11 a share
Employment:	950 globally
Revenues :	\$100 million



PrintingForLess (Livingston)

Founded:	1997
Business:	Printing and design
Fundraising to date:	\$5 million
Employment - 2010:	131
Revenues - 2010:	\$20 million



LigoCyte Pharmaceuticals (Bozeman)

Founded:	1998
Business:	Vaccine development
Employment - 2010:	43 FTE
Revenues - 2010:	\$716,000
Fundraising to date:	\$30 million



RightNowTechnologies (Bozeman)

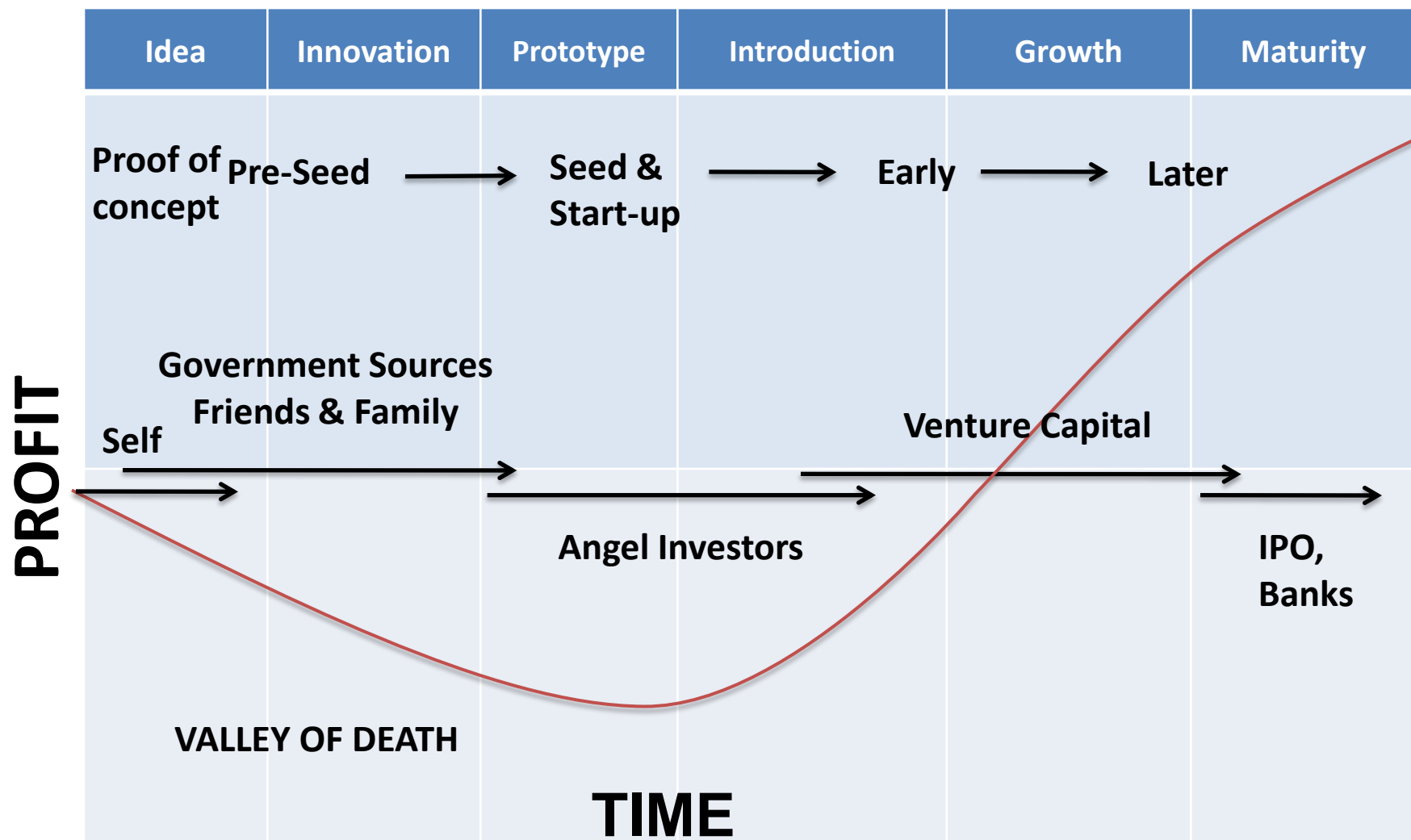
Founded:	1997
Business:	Customer Experience Software and Services
Total funds raised:	\$32M bootstrapped to 160 people
Exit year:	Jan 2012
Exit price:	Current market cap > \$1.5B
Employment:	Current > 1,000
Buyer:	ORACLE



Financing High-Impact Startups

Capital Sources for Entrepreneurs

Product and Capital Lifecycle





Self-funding - Bootstrapping

Action		Source of cash	Reduced use of cash
Personal	Keep day job	x	
	Working spouse	x	
	Delay/minimal salary to self and others		
	Use of personal car/computer/equipment		x
	Mortgage residence		x
	Using savings	x	
	Maximize credit cards	x	
	Sell personal assets	x	
		x	
Business	One partner keeps day job	x	
	Consulting while starting company	x	
	Negotiated delay in vendor payment		x
	Negotiated delay in landlord payment		x
	Advances from customers	x	
	Advances from partners	x	
	Selling other products	x	
	Early commercialization	x	

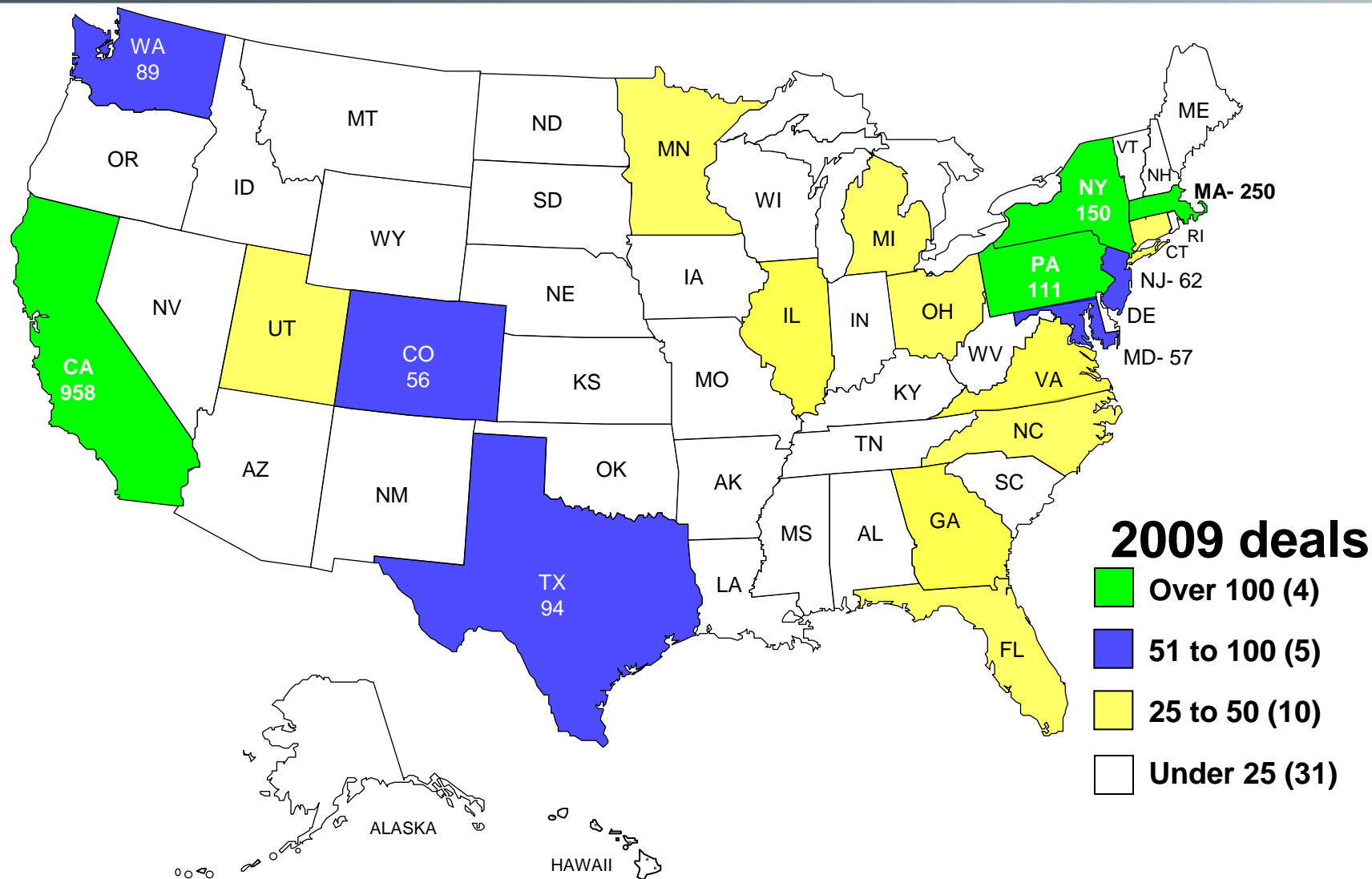




Who are Venture Capitalists?

- General partners
 - Salaried managers
 - Minimal investment, huge upside
- Limited partners
 - Corporations, pension funds, wealthy individuals
 - Totally passive involvement
- 1000 venture capital funds ↓
- Size: \$5 million to >\$10 billion

Where are these VCs?



Source: NVCA Yearbook 2010



Venture Capital in Montana

Venture Capital Firm	Website Address	Location	Contact Information	Deals Done in MT
Epic Ventures	www.epicvc.com	Salt Lake City, UT	Kent Madsen info@epicvc.com	None to Date
Flywheel Ventures	www.flywheelventures.com	Albuquerque, NM	Scott Caruso scott@flywheelventures.com	New West Publishing
Foundry Group	www.foundrygroup.com	Boulder, CO	Brad Feld brad@feld.com	None to Date
Glacier Venture Fund	www.glacierventurefund.com	Polson, MT	Jon Marchi jonmarch@marchiangus.com	Ligocyte, Printing for Less, CleanWaste Kids Up, Big Sky Airlines (exit), and Implemax (defunct)
Highway 12	www.highway12ventures.com	Boise, ID	Glenn Michael glenn@highway12ventures.com	Goomzee
Montlake Capital	www.montlakecapital.com	Bozeman, MT	John O'Donnell johno@montlakecapital.com	None to Date
Renewable Tech Ventures	www.renewablevc.com	Salt Lake City, UT	Todd Stevens todd@renewablevc.com	None to Date
vSpring Capital	www.vspring.com	Salt Lake City, UT	Dinesh Patel dinesh@vspring.com	None to Date
WIN Partners		Spokane, WA	Tom Simpson tom@nwva.com	None to Date



Investor Motivation

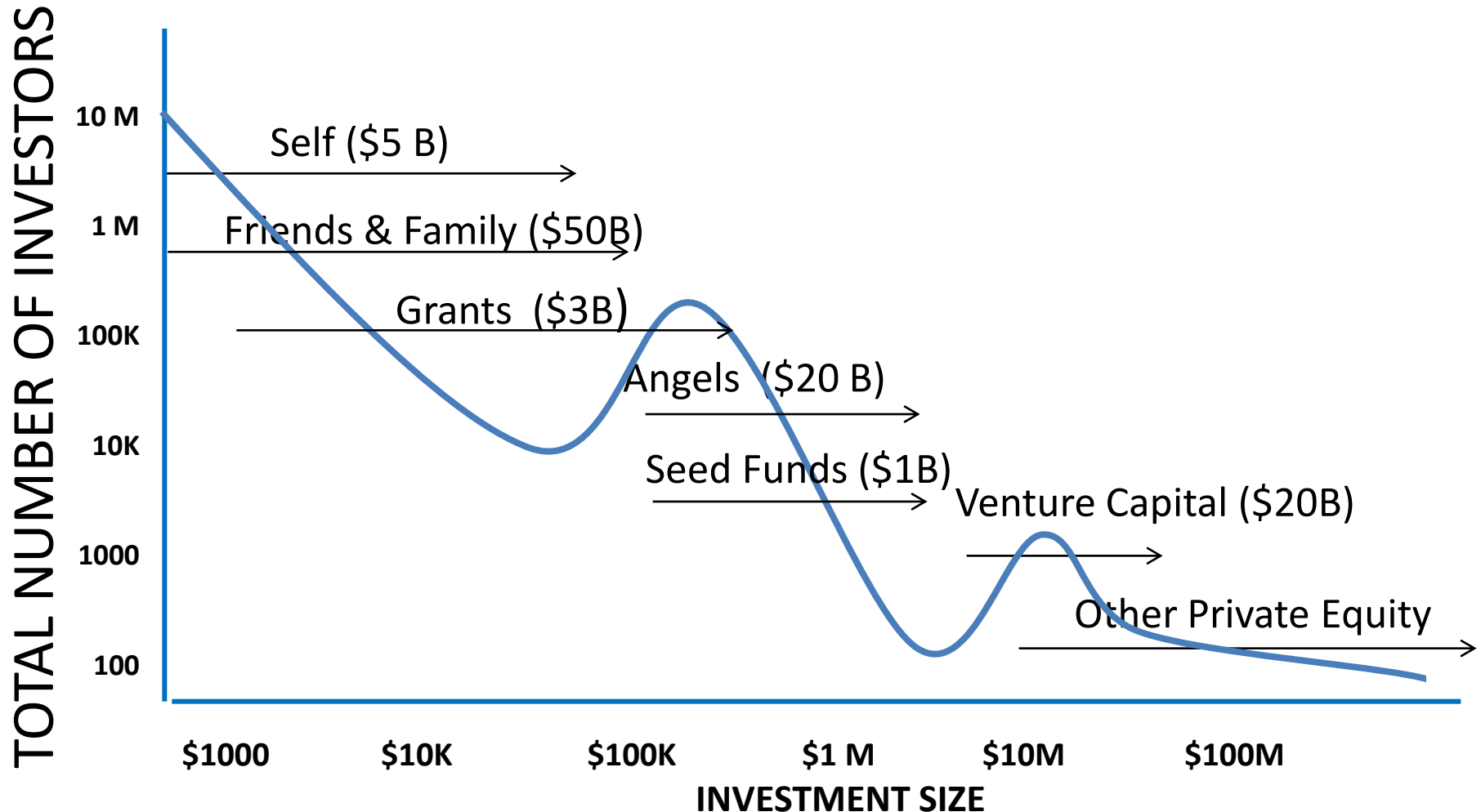
Venture Capitalists: make money

Angels

- Return on Investment is the metric
- Staying involved (sense of usefulness)
- Give back to community
- Affection for entrepreneurs

**altruistic
motivations**

Capital Sources





What is a Business Plan

- A complete description of your business
NOT solely a description of your product or technology
- Comes in several flavors – each used for different purposes
- Must be written by you, but
 - Use a template
 - Employ editors
 - Engage advisors



Business Plans for Startups

Business Plan	Description of Form	Use of Form with Investors
Elevator Pitch Video Pitch	2-5 minute verbal summary Covers entire plan Not use product/technology	First introduction Capture interest Goal: Another meeting
Executive Summary	2-page summary of plan Comprehensive but brief Include contact information	Intro to opportunity Capture interest Goal: Another meeting
PowerPoint Presentation	For multiple investors Full plan, not just product 10 slides, 20 minutes	Presentation plus Q&A Discuss: Investment offering Goal: Enter Due Diligence
Full Business Plan	Full plan with financials 20 -50 pages Written first/by entrepreneur	Prepared for entrepreneur and investors Due diligence guide



Angel Rating System

Management team	30%
Size of opportunity	25%
Product & technology	15%
Competitive Environment	10%
Sales channels, marketing	10%
Need for more funding	5%
Other	5%



References

The Entrepreneurs' Path: A Handbook for High Growth Companies,
Tom Walker, i2E (2010) – **provided with workshop**

Start-up, Elizabeth Edwards (2010) - **provided with workshop**

The Art of the Start, Guy Kawasaki (2004)

A Good Hard Kick in the Ass: Basic Training for Entrepreneurs,
Rob Adams (2002)

Bootstrapping Your Business, Greg Gianforte (2007)

The Definitive Guide to Raising Money from Angels,
Bill Payne (2006) - **free copy of eBook available to participants**



Investor Term Sheets

- Terms are a foreign language
 - You must learn this language
 - Likely bewildering at first
 - Your attorney can help, but this help is expensive
- A term sheet:
 - Non-binding agreement
 - Defines the terms and conditions of investment
 - Companies gets cash in exchange for ownership
 - Often time limited
 - Often requires exclusivity



Demonstration: Scorecard Method

Issue	Analysis	Weight	Factor	Input
Management	On board, except CEO weak	30%	100%	0.300
Opportunity	Really big market	25%	160%	0.400
Product	Disruptive, prototype OK	15%	180%	0.270
Sales	No channels, huge foreign	10%	10%	0.010
Competition	Fractured, no big guys	10%	150%	0.150
Other	Manufacturing concerns	10%	20%	0.020

Weighted Average Multiple = 1.15

$\$1.5 \text{ million} \times 1.15 = \1.7 million